

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2009



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**CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT**

**CITY OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Hall	Chairman, Light Plant Trustee	August, 2009
Dean Hubbard	Light Plant Trustee	August, 2013
Doug Ver Meer	Light Plant Trustee	August, 2011
Don Fahlenkamp	Plant Superintendent, Trustee Secretary	Until February, 2009, deceased
Shanel Fahlenkamp	Trustee Secretary	February, 2009 – Indefinite
Michael Horn	Attorney	Indefinite

### Independent Auditor's Report

To the Board of Trustees  
City of Montezuma Municipal Light and Power Plant  
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant, a component of the City of Montezuma, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montezuma Municipal Light and Power Plant's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated August 3, 2009, on our consideration of the City of Montezuma Municipal Light and Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 8 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Municipal Light and Power Plant's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were presented in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

August 3, 2009

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Montezuma Municipal Light and Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2009 FINANCIAL HIGHLIGHTS

- Revenues of the Utility decreased 4.3%, or approximately \$143,000, from fiscal 2008 to fiscal 2009. This is primarily due to fiscal 2008 operating grants from FEMA and the State of Iowa for ice storm damage of approximately \$153,000 that were not received in fiscal 2009.
- Disbursements decreased 13.8%, or approximately \$448,000 from fiscal 2008 to fiscal 2009. The net cost of purchased power decreased \$539,000.
- The Utility's total cash basis net assets increased 32.7%, or approximately \$408,000 from June 30, 2008 to June 30, 2009.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the Utility as a whole and presents an overall view of the Utility's finances.

The Fund Financial Statements tell how proprietary services were financed in the short term as well as what remains for future spending. Fund financial statements report the Utility's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Other Supplementary Information provides detailed information about the schedule of indebtedness and revenue note maturities.

### Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Utility's net assets. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Activities and Net Assets show business type activities:

- Business type activities include electric service. This activity is financed primarily by user charges.

### *Fund Financial Statements*

The Utility has only proprietary funds.

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains Enterprise Funds to provide information for the electric system, considered to be a major fund of the Utility.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The Utility's cash balance increased from a year ago, from \$1,249,072 to \$1,657,298. The analysis that follows focuses on the changes in cash balances.

<b>Changes in Cash Basis Net Assets of Business Type Activities</b> <b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 3,188	3,157
Operating grants, contributions and restricted interest	-	153
General receipts:		
Unrestricted interest on investments	11	29
Other general receipts	1	5
Total receipts	3,200	3,344
Disbursements:		
Electric	2,792	3,240
Total disbursements	2,792	3,240
Change in cash basis net assets	408	104
Cash basis net assets beginning of year	1,249	1,145
Cash basis net assets end of year	\$ 1,657	1,249

Total business type activities receipts for the fiscal year were \$3.188 million compared to \$3.310 million last year. This decrease was due primarily to the receipt of \$153,000 in operating grants from FEMA and the State of Iowa for ice storm damages in fiscal 2008 but not in fiscal 2009. The cash balance increased by approximately \$408,000 from the prior year primarily due to decreased net costs for purchased power. Total disbursements for the fiscal year decreased by 13.8% to a total of \$2.792 million.

The Montezuma Municipal Light and Power Plant has no governmental activities.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Electric Fund cash balance increased by \$408,226 to \$1,657,298, due primarily to lower net costs for purchased power.

#### **BUDGETARY HIGHLIGHTS**

The Utility's budget was set at the beginning of the year with expected receipts at \$3,045,000 and disbursements at \$4,000,000. The budget was not amended during the year.

## DEBT ADMINISTRATION

At June 30, 2009, the Utility had approximately \$4,260,000 in bonds and other long-term debt, compared to approximately \$4,510,000 last year, as shown below.

<b>Outstanding Debt at Year-End (Expressed in Thousands)</b>		
	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
Revenue notes	\$ 4,260	4,510
Total	\$ 4,260	4,510

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Utility rates are planned to stay the same. Current rates may be affected by the integration of Mid-American Power into the MISO market. We have set aside some money for the new wind turbine and we plan no other large expenditures in the future to our plant and distribution systems. We have also invested in new transmission through IPPA.

## CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Don Hall, Chairman of the Trustees, 501 East Main St., Box 314, Montezuma, Iowa 50171.

## **Basic Financial Statements**

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
As of and for the year ended June 30, 2009

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Business Type Activities	Total
<b>Functions/Programs:</b>					
Business type activities:					
Electric	\$ 2,792,179	3,188,664	-	396,485	396,485
Total business type activities	<u>\$ 2,792,179</u>	<u>3,188,664</u>	<u>-</u>	<u>396,485</u>	<u>396,485</u>
<b>General Receipts:</b>					
Unrestricted interest on investments				10,741	10,741
Miscellaneous				1,000	1,000
Total general receipts and transfers				<u>11,741</u>	<u>11,741</u>
Change in cash basis net assets				408,226	408,226
Cash basis net assets beginning of year				<u>1,249,072</u>	<u>1,249,072</u>
Cash basis net assets end of year				<u>\$ 1,657,298</u>	<u>1,657,298</u>
<b>Cash Basis Net Assets:</b>					
Restricted:					
Debt service/improvements				\$ 711,498	711,498
Unrestricted				945,800	945,800
<b>Total cash basis net assets</b>				<u>\$ 1,657,298</u>	<u>1,657,298</u>

See notes to financial statements.

## Exhibit B

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
As of and for the year ended June 30, 2009

	<u>Enterprise Funds</u>
	<u>Electric</u>
Operating receipts:	
Charges for service	\$ 3,188,664
Total operating receipts	<u>3,188,664</u>
Operating disbursements:	
Business type activities	<u>2,190,596</u>
Total operating disbursements	<u>2,190,596</u>
Excess of operating receipts over operating disbursements	998,068
Non-operating receipts (disbursements):	
Rental income	1,000
Interest on investments	10,741
Miscellaneous	(17,925)
Debt service	(434,708)
Capital projects	(148,950)
Total non-operating disbursements	<u>(589,842)</u>
Excess of receipts over disbursements	<u>408,226</u>
Net change in cash balances	408,226
Cash balances beginning of year	<u>1,249,072</u>
Cash balances end of year	<u><u>\$ 1,657,298</u></u>
<b>Cash Basis Fund Balances</b>	
Reserved for debt service/improvements	\$ 711,498
Unreserved	<u>945,800</u>
Total cash basis fund balances	<u><u>\$ 1,657,298</u></u>

See notes to financial statements.

Exhibit C

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT  
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -  
PROPRIETARY FUNDS  
As of and for the year ended June 30, 2009

<b>Total enterprise funds cash balances (Exhibit B)</b>	<u>\$ 1,657,298</u>
<b>Cash basis net assets of business type activities (Exhibit A)</b>	<u><u>\$ 1,657,298</u></u>
<b>Net change in cash balances (Exhibit A)</b>	<u>\$ 408,226</u>
<b>Change in cash balance of business type activities (Exhibit B)</b>	<u><u>\$ 408,226</u></u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

(1) **Summary of Significant Accounting Policies**

The City of Montezuma Municipal Light and Power Plant is a municipal utility operating in the City of Montezuma, Iowa. The Utility has a board appointed on a non-partisan basis. The Utility provides electric utility for the City's citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma Municipal Light and Power Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria. The Utility is, however, a component unit of the City of Montezuma. The City of Montezuma Municipal Light and Power Plant is legally separate from the City of Montezuma but is financially accountable to the City. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council. The Utility is includable as a component unit within the City of Montezuma reporting entity.

B. Basis of Presentation

**Government-wide financial statements** - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the Utility's non-fiduciary assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, but can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Montezuma Municipal Light and Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Light and Power Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The only restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. The reserve account and improvement account as described in Note (3) c) and d) are not available for current expenses.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$897,803 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk - The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**(3) Notes Payable**

Annual debt service requirements to maturity for revenue notes are as follows:

Year ending June 30,	Electric Revenue Notes, Series 2004 Principal	Electric Revenue Notes, Series 2004 Interest
2010	\$ 260,000	176,320
2011	265,000	168,130
2012	275,000	159,120
2013	290,000	149,220
2014	295,000	138,345
2015	310,000	126,987
2016	320,000	114,588
2017	335,000	101,307
2018	350,000	87,070
2019	365,000	71,845
2020	380,000	55,603
2021	400,000	38,312
2022	415,000	19,713
	<u>\$ 4,260,000</u>	<u>1,406,560</u>

Revenue Notes

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay \$5,150,000 in electric revenue notes issued in March, 2004. Proceeds from the notes provided financing for a joint ownership with Mid-American Energy and thirteen other municipalities to construct and operate a coal fired steam electric generating unit in Pottawattamie County, Iowa.

The note is payable solely from electric customer net receipts and is payable through 2022. Annual principal and interest payments on the note are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$5,666,560. For the current year, principal and interest paid and total customer net receipts were \$434,708 and \$998,068, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate electric revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c) An electric reserve account of \$439,275 shall be maintained within the Enterprise Funds until the 2004 note has been paid in full.
- d) An improvement account is set aside requiring \$2,500 on the first day of each month until \$150,000 is accumulated. The full \$150,000 improvement account has been set aside. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**(4) Pension and Retirement Benefits**

The City of Montezuma Municipal Light and Power Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007, were \$18,798, \$19,541, and \$17,050, respectively, equal to the required contributions for each year.

**(5) Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City of Montezuma Municipal Light and Power Plant until used or paid. The Utility's approximate liability for earned vacation payments payable to employees at June 30, 2009 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$27,332

This liability has been computed based on rates in effect at June 30, 2009.

**(6) Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ 27,102	-
Water Dept. Billing/Meter Reading	30,108	-
Gas Dept. Electric Use	12,858	-
Gas Dept. Billing/Meter Reading	21,461	-
General City Electric Use	54,551	-
Power Plants - Taxes in lieu	-	(59,627)
Totals	\$ 146,080	(59,627)

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

**(7) Related Party Transactions**

The Light and Power Plant had business transactions between the Plant and related parties of the Plant totaling \$26,081 during the year ended June 30, 2009.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009

**(8) Risk Management**

The City of Montezuma Municipal Light and Power Plant is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Economic Dependency**

During the year ended June 30, 2009, Montezuma Light and Power Plant had two major suppliers who provided 30.3% and 20.1% of the Utility's power. It also had one major customer, whose purchases totaled 31.8% of the charges for service revenue of the Utility.

**(10) Commitments and Contingencies**

On December 6, 2006, the City of Montezuma Light and Power Plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. The total commitment is for \$100,000. As of June 30, 2009, \$5,000 had been invested, none in the current fiscal year.

### **Required Supplementary Information**

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2009

	Proprietary Funds Actual	Original and Final	Final to Net Variance
Receipts:			
Use of money and property	\$ 11,741	-	11,741
Charges for service	3,188,664	3,045,000	143,664
Total receipts	3,200,405	3,045,000	143,664
Disbursements:			
Business type activities	2,792,179	4,000,000	1,207,821
Total disbursements	2,792,179	4,000,000	1,207,821
Excess of receipts over disbursements	408,226	(955,000)	1,363,226
Balances beginning of year	1,249,072	638,113	610,959
Balances end of year	\$ 1,657,298	(316,887)	1,974,185

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

### **Other Supplementary Information**

## Schedule 1

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT  
SCHEDULE OF INDEBTEDNESS  
Year ended June 30, 2009

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Electric	3/1/1999	4.15-4.65%	\$ 545,000	\$ 65,000	-	65,000	-	3,023	-
Electric	3/1/2004	1.50-4.75%	5,150,000	4,445,000	-	185,000	4,260,000	181,685	58,773
				<u>\$ 4,510,000</u>	<u>-</u>	<u>250,000</u>	<u>4,260,000</u>	<u>184,708</u>	<u>58,773</u>

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT  
REVENUE NOTE MATURITIES  
June 30, 2009

Year Ending June 30,	Electric Revenue Note Issued March 1, 2004	
	Interest Rate	Amount
2010	3.15%	\$ 260,000
2011	3.40%	265,000
2012	3.60%	275,000
2013	3.75%	290,000
2014	3.85%	295,000
2015	4.00%	310,000
2016	4.15%	320,000
2017	4.25%	335,000
2018	4.35%	350,000
2019	4.45%	365,000
2020	4.55%	380,000
2021	4.65%	400,000
2022	4.75%	415,000
		<u>\$ 4,260,000</u>

See accompanying independent auditor's report.

**CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
City of Montezuma Municipal Light and Power Plant  
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of and for the year ended June 30, 2009, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated August 3, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma Light and Power Plant's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Montezuma Light and Power Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Montezuma Light and Power Plant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Montezuma Light and Power Plant's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Montezuma Light and Power Plant's financial statements that is more than inconsequential will not be prevented or detected by the City of Montezuma Light and Power Plant's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Montezuma Light and Power Plant's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma Municipal Light and Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Montezuma Municipal Light and Power Plant's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the City of Montezuma Municipal Light and Power Plant's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma Municipal Light and Power Plant and other parties to whom the City of Montezuma Municipal Light and Power Plant may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma Municipal Light and Power Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

August 3, 2009

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2009

**Part I: Summary of the Independent Auditor's Results**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

- II-A-09 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Due to cross-training for versatility, personnel have access to functions which, from a segregation of duties standpoint, are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utility should segregate duties to the extent possible with existing personnel and continue to utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-09 Certified Budget – Disbursements for the year ended June 30, 2009 did not exceed the certified budget amounts.
- III-B-09 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-C-09 Travel Expense - No disbursements of City of Montezuma Municipal Light and Power Plant money for travel expenses of spouses of Utility officials or employees were noted.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2009

III-D-09 Business Transactions

Business transactions between the Utility and Utility officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jim Hicks, Mayor, Owner of Jim's Heating and Air Conditioning	AC/Boiler Repairs	\$ 662
Kyler Kudart, Plant employee's son, Kyler's Mowing Service	Mowing	1,270
Doug Ver Meer, Trustee, Owner of Vannoy Chevrolet	New Truck and Repairs	19,251
Mike Fahlenkamp, Son of Don Fahlenkamp-previous Superintendent, Mike's Electric	On call capacity generation Repairs	3,500 1,398
		<u>\$ 4,898</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the Mayor and the Employee's son do not appear to represent conflicts of interest since total transactions with the individuals were less than \$1,500 during the fiscal year. Transactions with the Trustee and the Superintendent's son appear to be a conflict of interest. Legal council should be contacted regarding these items.

Recommendation – The Utility should apply for bids, or receive quotes for purchases before buying from related parties in order to substantiate that these transactions are done in the public's best interest, and in an arm's length transaction. Legal council should be contacted.

Response – We will comply with Chapter 362.5(10) of the Code of Iowa in the future. We will also contact legal council.

Conclusion – Response accepted.

III-E-09 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

CITY OF MONTEZUMA, IOWA  
LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

Year ended June 30, 2009

- III-F-09     Trustee Minutes – We believe the bank accounts closed and new accounts opened should have been approved in the Trustee's minutes, but were not.

The Trustees went into closed session February 18, 2009. However, the minutes record did not document the specific information regarding the closed session as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

The vote of each member was not always recorded in the minutes.

Recommendation – The Utility should comply with Chapter 21 of the Code of Iowa and record the vote of each Trustee.

Response – We will comply with the Code requirements for closed session. We will record the vote of each Trustee. We will approve all bank account changes in the future.

Conclusion – Response accepted.

- III-G-09     Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.

- III-H-09     Revenue Note - The City of Montezuma Municipal Light and Power Plant has established proper accounts as required by the utility revenue note resolution. No instances of non-compliance with the revenue bond resolutions were noted.